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## **A Tax Break's Unfortunate Legacy**

William H. Gates Sr.

The power of organized money has won another round, as the Senate's vote to repeal the estate tax has demonstrated.

The proponents of wholesale repeal were able to wage a campaign based largely on symbolism and distortion of fact. They cited the plight of farmers, but when a reporter asked for living examples of real small farmers who had lost their farms, they couldn't be found. The deliberative tradition of the Senate caved under the pressure of ideology over reality. Missing has been a debate about the potential dangers of eliminating our estate tax. What will it cost in lost federal revenue? How will state treasuries manage without their revenue linked to the federal estate tax? What effect will it have on charitable giving and the nonprofit civic sector? What happens to democracy and equality of opportunity in a society with such great inequities of wealth and power?

And more technical questions: Are there ways to reform the tax to address concerns about family enterprises? How would a repeal of the "stepped up basis," which exempts estates from capital gains taxes, be administered? Instead of discerning these vital questions, our elected leaders have punted. By structuring full repeal to take effect 10 years down the road, they have obscured the cost and downside of repeal and shifted the burden onto future generations.

A hundred years ago, we did have a rigorous debate about the need to tax large accumulations of wealth. Then, as now, wealthy people took a stand in favor of inheritance taxes. Andrew Carnegie personally testified before Congress in favor of the estate tax.

The petition effort that I launched with Responsible Wealth is a similar effort. More than a thousand prominent investors and business leaders -- from families that have paid or will pay estate taxes -- have called for reform but not repeal of the tax. Many of the signers are owners of small businesses who understand that concentrations of wealth and power are not friendly to small enterprise.

The fate of the estate tax goes to the heart of the American experiment. What has made America distinct from Europe is our effort not to create hereditary aristocracies and our suspicion of concentrated wealth and power weakening our democracy. It was understood a century ago that the estate tax **was** an attempt to balance conflicting American values: on the one hand, our respect for private enterprise and personal wealth, and on the other, our concern for democracy and equality of opportunity. Today's debate is missing this historical concern. In its place, we have come to worship a myth of individual merit and success. But the unspoken little secret is that great wealth is never entirely the result of

individual achievement. We underestimate the role of luck, privilege and God's grace in our good fortune. And we dismiss the incredible contribution our society makes to creating the fertile soil for successful private enterprise through public investment.

My own perspective celebrates individual achievement and the hard work of entrepreneurs and leaders in our free-enterprise system. But I also recognize that society has played an important role in the creation of wealth. Take anyone of the Forbes 400 and drop them into rural Africa and see how much wealth they would amass.

Imagine that two infants are about to be born. God summons their spirits to his office and makes them a proposition. One child will be born in a prosperous industrialized country, the United States. Another child will be born into a country of society-wide abject poverty. God proposes an auction for the privilege of being born into the United States. He asks each new child to pledge a percentage of his earthly accumulation at the end of his life to the treasury of God. The child who writes the highest percentage will be born in the United States. Does anyone think either child would pledge as little as 55 percent, the current top estate-tax rate?

This is not a slight of the vibrant community and human qualities that exist in less-developed countries. I have traveled the world in my work on health and am struck by the quality of the human spirit. But our society has facilitated wealth-building by creating order, protecting freedom, creating laws to govern property relations and our marketplace, and investing in an educated work force. What's wrong with the most successful people putting one-quarter of their wealth back into the place that made their wealth and success possible? Many people repay their universities this way. Why not their country?

For the sake of our grandchildren, I hope we can revive this vital debate. It may not be happening in the halls of Congress, but perhaps we can take it to the town square.

*The writer is co-chair of the Bill and Melinda Gates Foundation and co-founder of Responsible Wealth's Call to Preserve the Estate Tax.*

## **A Fair Payment for War**

Washington Post • March 25, 2003

*By William H. Gates Sr. and Chuck Collins*

Last week we saw something unprecedented in American history: a push for tax cuts targeted to the wealthy in a time of war. As U.S. jets prepared to bomb Baghdad, Sen. Jon Kyl (R-Ariz.) offered an amendment to the federal budget legislation accelerating the repeal of the estate tax. It is a provision that would benefit less than 2 percent of the wealthiest taxpayers. It passed by a narrow vote of 51 to 48.

There is something unseemly about Congress's obsession with repealing the estate tax, the nation's most equitable tax on accumulated wealth, at a time when life and death are at stake. The American history of estate and inheritance taxes is wound together with mobilizations for war. The first federal tax on wealth was levied in 1797, as our country was faced with the escalating costs of responding to French attacks on American shipping.

During the 19th century, federal revenue came primarily from excise taxes and tariffs. Income and estate taxes were imposed only in revenue emergencies, during the Civil War and the Spanish-American War. Wartime taxation, or the "conscription of wealth," was perceived as equitable at a time when many citizens were sacrificing their lives, sometimes as soldier proxies for wealthier citizens.

The 1916 estate tax was a fundamentally American response to the excessive inequalities of the Gilded Age and reflected the country's need to move beyond reliance on the regressive tariff and excise taxes as primary sources of government revenue. Yet it was given a tremendous push by the U.S. entry into World War I and the need for wartime funds. Even after the war, businessman Harlan E. Read argued in his book "The Abolition of Inheritance" that war debts should be paid off with heavy taxes on inherited wealth.

In order to pay for World War II, the income tax was broadened to many lower-income households. In 1942 Irving Berlin wrote a patriotic song called "I Paid My Income Tax Today" to mark the unprecedented tax collections. One verse went: "You see those bombers in the sky, Rockefeller helped to build them, so did I." President Franklin D. Roosevelt understood that national unity against Hitler depended on a sense of shared sacrifice, by both Rockefeller and Rosie the Riveter.

Top income rates were boosted, and the estate tax was increased so that fortunes exceeding \$50 million would be taxed at 70 percent. FDR spoke out boldly against war profiteering, saying, "I don't want to see a single war millionaire created in the United States as a result of this world disaster."

Today the lives of some of our citizens are at risk. Others are feeling the pain of the recession, losing their jobs, savings and security. State and local governments, facing the

worst budget cuts since World War II, are laying off workers and cutting education spending, children's health care and basic human services.

Rather than facing these problems and appropriating the money to resolve them, congressional leaders are using the diversion of war to pass a tax cut for the wealthy that would exacerbate budget shortfalls at all levels. While the public's attention is riveted on Iraq, the Senate acts to accelerate the repeal of the progressive estate tax.

At a time when states need \$70 billion in federal aid to close their deficits, federal priorities seem to be very different. Will the costs of war be paid by reductions in spending, mostly affecting our most vulnerable citizens? Will there be clear domestic economic winners and losers in the conduct of this war?

Political scientist Michael Lipsky observed a year ago that this war "will evidently exacerbate the divide between rich and poor." Wars have had this effect on the United States before, but absolutely without precedent is a push for a windfall tax cut for the wealthy as wartime expenses mount.

*William H. Gates Sr. is co-chairman of the Bill and Melinda Gates Foundation. Chuck Collins is co-founder of Responsible Wealth. They are the authors of "Wealth and Our Commonwealth: Why America Should Tax Accumulated Fortunes."*

## Who Will Pay?

By E. J. Dionne Jr.

Friday, January 17, 2003; Page A23

"I thought it was an interoffice joke."

That's how Chuck Collins, co-founder of a group called United for a Fair Economy, reacted when he was first told that William Gates Sr. wanted to talk with him about stopping the repeal of the estate tax.

It was no joke. The father of one of the richest men in history believes, as he put it during a visit here this week, that the inheritance tax "is the most intelligent tax ever devised."

Why? Because it doesn't tax labor or investment. It encourages each generation to build new wealth. And it accepts the idea that the very wealthy owe something back -- not just to society but to government itself.

In their just-published, clearheaded primer on estate taxes, "Wealth and Our Commonwealth: Why Americans Should Tax Accumulated Fortunes," Gates and Collins quote Theodore Roosevelt. "The man of great wealth owes a particular obligation to the State because he derives special advantages from the mere existence of government," the Republican Roosevelt declared in 1906. "It is only under the shelter of the civil magistrate that the owner of valuable property can sleep a single night in security."

Without government to enforce contracts, protect life and property, and mitigate social inequities, the very wealthy would live in constant fear of being plundered.

Gates, a happy warrior and a bear of a man, has thrown his formidable resources into making sure that he and people like him pay a decent share of the cost of government. He and Collins are doing urgent work. By pushing to repeal both the estate tax and the dividends tax, the Bush administration is doing all it can to shift the total tax burden away from the very wealthy and toward middle- and lower-income taxpayers.

The administration is disguising its intentions by combining these large tax cuts for the wealthy with more modest breaks for people in the middle class, all the while running up the deficit. It is trying to push off the table the obvious option -- to give a break to the middle class without handing out huge sums to a very small number of very wealthy Americans.

It will and should be repeated over and over that under Bush's program, Vice President Cheney would get a tax cut of \$327,000, according to calculations by Bloomberg News based on Cheney's 2001 tax return. In a time of war, is it really urgent to plunge the country ever deeper into debt to give Cheney and comparably placed taxpayers that much

relief? The administration is placing the burden of helping the wealthy now on our children and grandchildren. This is not only unjust, it's nuts.

Gates and Collins, whose book focuses on the estate tax, ask the essential question: Isn't the estate tax a better tax than the alternatives? "Estate taxes compared with what?" they write. "Wage taxation? Increased sales taxes? Consumption taxes? A return to nineteenth century tariffs?" Their questions apply just as well to the tax on dividends.

Ah, but wouldn't everyone pay less if government grew smaller? But this administration, with its war plans and other military expenditures, is making government bigger. Without big cuts in spending on items that Americans like -- Medicare and other health programs, Social Security, child care, aid to education and, let's not forget, domestic security -- the choice will be larger deficits or a heavier tax burden on middle-class and poor Americans.

And as state and local governments' revenue dries up while the federal government puts more burdens on them -- for example, homeland security costs and the price of complying with the new education law -- these governments either have to raise taxes, especially regressive sales taxes, or slash spending.

Which of the following would be smarter: for the feds to put lots of money into repealing estate and dividend taxes that affect a handful of Americans; or to use the same sums to help the vast majority of Americans avoid big sales and property tax increases?

Let's be clear: This is not a battle over tax cuts. It's a fight over who will pay for government, today and tomorrow. Almost all Americans could be protected from estate levies simply by exempting the first \$8 million of a fortune from the tax -- a lot of money by most reckonings. Inheritance taxes would fall only on the largest estates. That, says Gates, is entirely just. As he puts it, those who were best able "to take advantage of what society has to offer" have a debt to pay. It's a concept no less worthy for being old-fashioned.

# Issue Brief on GOP Estate Tax Repeal Bill




## Committee on Ways and Means Democrats, Rep. Charles Rangel, Ranking Member

Democrats have supported sensible and immediate estate tax relief to ensure that owners of family farms, small businesses, and homes can pass these assets intact to their heirs. The Republicans' plan to permanently repeal the estate tax holds these groups hostage until the richest people in society are allowed to pass all their wealth to their heirs with no tax at all. The Republican plan has such a high cost starting in 2012 that it endangers Social Security and Medicare at a time when the Baby Boom is retiring.

Repeal of the estate tax gives no benefit for the vast majority of American families. The heirs of less than 2% of people who die in the U.S. pay any estate tax at all. Only 3% of that 2% are small businesses or family farms. Most of the benefits of complete repeal do not go even to the merely wealthy; the lion's share goes to the super rich! Under the GOP plan, the estates of the FORBES 400 richest Americans would get \$200-300 billion in tax breaks – money that instead could go toward a prescription drug benefit.

**Multiple Choice Test**

In the future, the U.S. Congress should:

☐ Completely eliminate all taxes on estates, giving the wealthiest 2% of Americans roughly \$750 billion over a ten year period.  
  
☐ Instead, use the revenue to enact a Medicare prescription drug benefit and strengthen Social Security and Medicare.  
  
☐ Repeal the estate tax and enact some sort of prescription drug coverage. Charge the cost to our children and grandchildren by running up the national debt by at least \$1 trillion.

Despite a well-funded public relations campaign led by big Washington lobby groups, most Americans do not believe that the heirs of the super rich should inherit hundreds of millions without paying any tax. It is not fair that working families should pay tax on earned income while the children of the very wealthy pay no tax on what they are lucky enough to inherit.

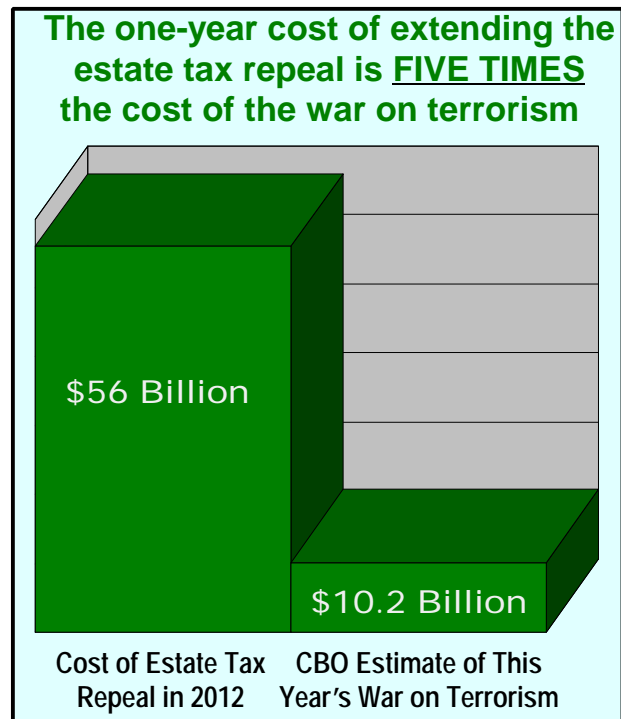
When the 2001 Tax Act was passed, there were still large projected surpluses. But

now \$4 trillion in projected revenues has vanished, deficits have returned, and the Social Security and Medicare lock boxes have been shattered. Under these circumstances, it is difficult to see how we can extend the estate tax repeal and still provide a meaningful Medicare prescription drug benefit.

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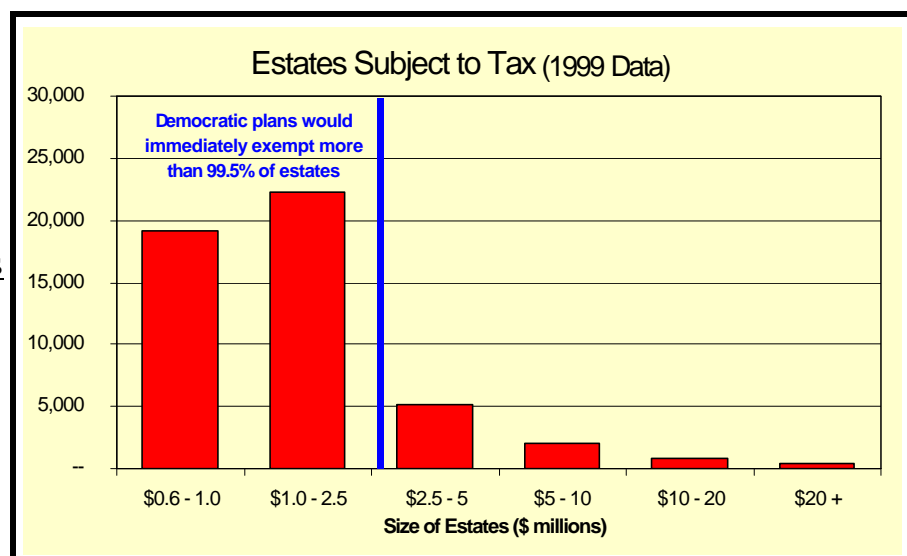
An estate tax repeal would cost \$1 trillion (when debt service is included) over a ten-year period starting in 2013 – money that would otherwise go toward homeland security, education, veterans' benefits, medical research, and paying down the debt including the debt the nation owes to the Social Security and Medicare trust funds.

Extending the GOP estate tax plan would endanger Social Security and Medicare because it would drain a large amount of revenue exactly at the time that the Baby Boom generation hits retirement age. This revenue source will be needed at that time to pay off the debt the federal government owes the Social Security and Medicare trust funds. So far, Republicans have rejected any off-sets Democrats have offered and have refused to offer any of their own off-sets. If the estate tax repeal is made permanent, someone is going to have to pay for it – most likely future Social Security and Medicare beneficiaries.



The 2001 Tax Act phased in repeal very slowly and then ended it nine months before the end of the budget window. Now, Republicans want to have their cake and eat it too – they claimed credit for a “repeal” of the estate tax last year while they also kept it alive as a political issue. In fact, legislation offered by Rep. Rangel last year would have ended the estate tax for more than 99.5% of estates including any estate modest enough to be legitimately considered a family farm. Republicans turned down this bill preferring to deprive family farms, small businesses, and home owners in high property-value areas from getting their relief until the super rich are exempted as well.

Under the GOP bill, farms still are subject to estate tax until the repeal takes full effect years from now. Furthermore, the Republican bill imposes burdensome and unrealistic capital gains tax requirements.



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Draft Estate Tax Op-ed by Congressman Earl Pomeroy

In the coming weeks, much of the debate in Congress will revolve around the permanent repeal of the estate tax. Thousands of our farmers and small business owners in North Dakota have worked hard to pass successful operations onto their children, and I firmly believe that we need to reward these actions. Common sense dictates that Uncle Sam should not tax away someone's life work after they die.

My view on estate tax relief is simple: we need a plan that provides estate tax relief immediately and does not jeopardize the long-term solvency of Social Security and Medicare. This week, I will introduce H.R. XX, which increases the estate tax exclusion to \$3 million dollars per person and \$6 million dollars per couple. If implemented, this plan would immediately eliminate the estate tax for 99.6% of all Americans.

H.R. XX, which would take effect in January 2004, provides for immediate estate tax relief. This is a key difference between my proposal and the plan advocated by the majority, which pledges to eliminate the estate tax in 2011. Truth be told, such a pledge is not worth the piece of paper it is written on.

This pledge reminds me of the numerous times Congress voted to make the investment tax credit permanent. Today, this credit is no longer a part of our tax code. Leaving the door open for a future Congress to scrap estate tax reform is simply unwise. As the old saying goes, "A bird in the hand is worth two in the bush." To ensure immediate and certain relief, Congress must not relegate its duties to future lawmakers. We need estate tax relief, and we need it now.

Not only does my plan provide estate tax relief right away, but it also keeps our long-term budget needs in mind. The ten-year cost of H.R. XX is \$39.2 billion [using 2001 numbers], a mere fraction of the \$1 trillion dollar price tag carried by the majority's proposal.

The baby boom generation will begin to retire in 2008 and become eligible for Medicare in 2011. Colossal revenue losses resulting from the majority's proposal will make it more difficult than ever to ensure that these programs are financially sound. Analysts have estimated that outright repeal of the estate tax would cost 40% of the amount needed to shore up Social Security for the next 75 years.

Congress has before it the opportunity to secure immediate estate tax relief. We can have substantial relief and still keep our commitments to Social Security and Medicare. I will continue to fight for both of these priorities.

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## **H.R. 1528 - Taxpayer Protection and IRS Accountability Act**

This bill was scheduled for consideration on the Suspension calendar on April 8 and under regular order last week but was pulled due to controversy regarding a provision that strikes important health insurance standards protecting laid-off workers. These standards were negotiated as a part of Section 201 of the Trade bill (PL107-210) providing a 65 percent tax credit for expenses related to qualified health insurance for workers who lost their jobs as a result of trade-related competition. These standards are especially important to older workers in industries such as steel or automotive whose plants have been shut down and can only access their health care needs through state-sponsored programs. Since this provision was enacted last summer, not all states have made the conforming changes needed to satisfy the requirements to qualify their programs.

This is the 3rd time that Ways and Means Chairman Thomas has insisted on bringing this waiver to the floor on an unrelated, otherwise uncontroversial bill. The first time it was to be considered was as one of the myriad miscellaneous issues added to the original Armed Forces Tax bill, H.R.878, in March. The provision was also added to H.R. 1528 in time for consideration on the suspension calendar in April. Instead of negotiating with Democrats in good faith, the Republican Leadership has rescheduled the bill for floor consideration even though the offending trade provision stands little chance of being accepted by the Senate. Were it not for this issue, the underlying improvements made by H.R. 1528 would likely be law by now. Similar provisions were included in a bill that was rejected in April of 2002 over an unrelated campaign finance matter.

The underlying bill contains nearly fifty technical changes and provisions aimed at easing tax administration regulations and benefit taxpayers, including:

- Electronic Filers would have 2 more weeks to file their taxes (April 30);
- Flexibility on penalties for minor errors and better terms regarding interest paid as a result of estimated tax underpayment or penalties;
- Greater flexibility on installment payments for tax liability;

- Enhanced taxpayer confidentiality and disclosure, such as protections from "browsing" by IRS employees;
- Flexibility in disciplinary action and removal of some 1998 IRS Reform law provisions that required termination of IRS employees for certain acts;
- Additional authorization of funds for low-income taxpayer clinics.

**Democrats may present a substitute.**



# United Steelworkers of America

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June 10, 2003

U.S. House of Representatives  
Washington, D.C. 20515

## SAVE CONSUMER PROTECTIONS FOR HEALTH CARE TAX CREDIT RECIPIENTS, OPPOSE McCRERY AMENDMENT TO H.R. 1528

Dear Representative:

The United Steelworkers of America expresses its strong opposition to the McCrery Amendment in H.R. 1528, the Taxpayer Protection and IRS Accountability Act, and urges you to oppose the rule and oppose the bill if it contains the McCrery Amendment, which would require certain persons to waive important consumer protections in existing law in order to receive the Health Insurance Tax Credit (HITC) under the Trade Adjustment Assistance Act.

Passed as part of the Trade Act of 2002 last year, the HITC provides a 65 percent tax credit for the cost of qualified health care premiums for certain individuals between the ages of 55 and 64 (pre-Medicare). The law specifies which types of coverage qualify for the tax credit, including individual market coverage, COBRA continuation coverage, or coverage through a qualified state-based plan. After lengthy negotiations last year, the law requires that health care coverage offered through any of the state-based options **must include** four consumer protections. These include; 1.) a guaranteed offer of coverage; 2.) no exclusions for coverage of pre-existing conditions; 3.) premiums comparable to other individuals in the group; and 4.) benefits comparable to other individuals in the group.

A technical provisions of the law requires individuals to have at least three months of creditable health insurance coverage **before** becoming eligible for the new tax credit under the state-based plans. This provision unfortunately limits access to the tax credit for those persons who may have had a 63-day break in their insurance coverage.

The McCrery Amendment adopted by the Ways and Means Committee in the bill proposes to extend eligibility for the HITC to these persons in a state-based option who do not have the required three months of creditable coverage, but only **if** they agree to waive the four consumer protections described above. Representative McCrery may now propose to waive only the first two consumer protections described above only for persons in states which have not yet established state-based plans.

This provision would essentially create a two-tiered tax credit. Persons living in a state which has already established a state-based option would not have to give up any of the four consumer protections in order to qualify under the existing law. However, persons living in states which have not yet created a state-based option would be compelled to give up the two most important consumer protections (i.e., guaranteed issue and no exclusion for a preexisting condition) in order to become eligible for the credit. This would permit those states to exclude sick people from new state-based plans. If these people are unable to participate in a state-based plan and cannot afford COBRA coverage or individual market coverage, they will still not get the tax credit because receiving the tax credit is contingent upon actually having coverage from a qualified plan.

If the proponents of the McCrery Amendment truly want to expand eligibility for the tax credit to those with a break in their insurance coverage, they could have sought to amend the law to abolish the three-months of creditable coverage requirement. Instead, they present those in danger of losing their health insurance with a Hobson's choice; either give up important consumer protections under current law in order to qualify for the tax credit, or go without the tax credit because of the three-month creditable coverage rule. For persons with preexisting conditions, this is no real choice at all.

There is no evidence on the public record that any states are calling upon Congress to create the option of allowing tax credit recipients to waive their consumer protections in order to become eligible for the tax credit. In fact, several states are proceeding to create new state-based plans for their uninsured citizens. State consumer protections in the existing insurance market vary significantly from state to state. That is one of the key reasons why strong Federal consumer protections were applied to the state-based options in the first place.

**The USWA urges you to vote NO on the rule for the consideration of H.R. 1528 if the bill includes the McCrery Amendment as reported by the Ways and Means Committee or any similar provision which would require anyone to waive any consumer protections under existing law as a condition of qualifying for the Health Insurance Tax Credit. We also urge you to vote NO on H.R. 1528 on final passage if the McCrery Amendment or any similar provision remains in the bill.**

Sincerely,

A handwritten signature in black ink, appearing to read "William J. Klinefelter". The signature is fluid and cursive, with the first name "William" and last name "Klinefelter" clearly distinguishable.

William J. Klinefelter  
Assistant to the President  
Legislative and Political Director